

# **City Manager's**

# **Budget Message**

# **FY 2013 Budget**

## **FY 2013 Adopted Budget Highlights**

- Expenditures for all funds total \$161,973,361, an increase of 10.7% over FY 2012
- General Fund revenues and expenditures of \$120,599,353, an increase of 5.5% over FY 2012
- Capital Fund expenditures for General Fund supported projects of \$2,873,614 representing 2.4% of General Fund expenditures
- Real estate tax rate of \$1.01 per \$100 of assessed value, an increase of 6.8¢ from the FY 2012 Adopted Rate of 94.2¢; includes 1.0¢ (0.5¢ increase) dedicated to the Stormwater Fund; average residential tax bill to increase 8.9%
- One cent on the real property tax rate is equivalent to \$537,000
- Real estate residential assessments increase an average of 1.6% for CY 2012; Commercial assessments increase an average of 3.1% for CY 2012 (for the purposes of equalization both exclude new construction totaling \$33.8 million)
- Assessed value of all real property equal to \$5,221,856,263, an increase of \$144,461,763 or 2.8% (includes new construction of \$33.8 million)
- Provides for public safety employee merit raises of 5.0% for eligible employees and general employee merit raises of 3.5% for eligible employees (\$345,000)
- Includes a 5.0% State-mandated raise for all full-time employees to offset the shifting of the 5.0% Virginia Retirement System employee retirement plan contribution from the City to those employees at a net cost to the City of \$170,000
- Provides for a 1.0% market adjustment (COLA) for all employees (\$350,000)
- The City's CUE bus system fares increase by 10.0¢ to \$1.80 and evening operating hours are reduced on weekdays by one hour to reduce staffing costs (a \$6,800 savings).
- Maintain the Senior Tax and Rent Relief income limit at \$62,000
- Water consumption rate increase of 7.5% and Wastewater service rate increase of 12.0% to support a significant number of capital projects and additional debt service costs relating to the City's share of Fairfax County wastewater plant upgrades, where the City's wastewater is treated
- Use of \$2,184,803 Undesignated Fund Balance from FY 2012 estimated surplus, generated largely by the increase in the real estate tax rate
- Resulting Fund Balance equal to 9.2% (\$11.1m) of General Fund expenditures

## **Guide to the Budget Document**

### **OVERVIEW**

The City's budget serves as a financial and policy plan that guides decisions made during each fiscal year. The budget is the single most important document we have for establishing control over the direction of change and determining the future of the City. It lays the groundwork for what we hope will be our community's continued future prosperity. Within the pages of the document, the reader will find:

- A fiscal plan
- Revenue and expenditure summaries
- Policy statement
- Goals and objectives
- An annual operating program
- A long range planning guide
- A management tool to ensure financial control
- Performance measures to ensure accountability and evaluate performance

Not all narratives will contain each of these components, but rather only those that are applicable.

### **BUDGET PREPARATION PROCESS**

The development of the City's Operating Budget involves three phases: formulating budget requests, City Manager executive review and proposal, and City Council review and adoption. Each of the three phases is summarized as follows:

#### ***Formulating Budget Requests: September – December***

- The formative stage of every budget begins in the Fall.
- Work with the City's Budget Committee throughout the entire budget process
- City Council sets guidelines for the budget in November, which provides the framework for developing the new budget. In addition, the City Manager briefs the City Council on the financial summary of the previous fiscal year, and a projection of the current and upcoming fiscal years.
- City agencies assess their budgetary needs and submit requests to the Budget Committee. Requests are typically due in the middle of December.
- Revenue estimates are derived from a review of current and projected economic indicators, current and proposed Federal and State legislation, knowledge of future events in the City and a review of historic trends.

***City Manager Executive Review and Proposal: December – February***

- Requests from departments are reviewed and evaluated for priority.
- Meetings are held between the departments and Budget Committee to discuss budget requests. Based on estimated revenues, funding is requested by the City Manager for the programs and services required to maintain an essential level of service or to provide for enhancements to programs identified as priorities by City Council.
- City Manager proposes the budget to City Council on the last Tuesday of February
- By law, local government budgets must be balanced; i.e., expenditures may not exceed revenues.

***City Council Review and Adoption: March – May***

- City departments provide department budget presentations.
- City Council advertises the proposed real estate tax rate (mid to late March)
- Council reviews the proposed budget and a minimum of two public hearings are held to provide the public with an opportunity to comment to ensure the budget is responsive to citizen needs.
- After careful deliberation, the proposed budget, as modified for additions and deletions, is enacted by City Council as the adopted budget. In addition, City Council adopts the real estate tax rate, all other rates and levies, and the budget appropriation resolution.
- The budget can only be amended by the City Council after proper notice and a public hearing.
- The Adopted Operating Budget takes effect on July 1, the beginning of the fiscal year.

The Capital Improvement Program (CIP) follows a similar process whereby departments submit estimates, which are evaluated for priority and funding. The initial proposed CIP is issued in November and forwarded to the Planning Commission for public hearing and evaluation. The Planning Commission holds a public hearing on the CIP and issues a memorandum to the City Council with recommendations. The City Council holds at least one public hearing on the CIP and defers action until adoption of the operating and capital budgets in May. The City Manager refines the initial proposed CIP based on an evaluation of operating funding requests and available resources. A capital budget (the first year of the adopted CIP) is included in the operating budget—together they become the adopted budget. The CIP is a separate budget document that contains all detailed project and budgetary information for the full five year period.

**BUDGET REVIEW SCHEDULE**

The following dates were scheduled for City Council review and approval of the budget, but are subject to change per City Council:

<b>Date</b>	<b>Action Item</b>
February 28, 2012	City Council Meeting – City Manager Presentation of Proposed Budget
March 14, 2012	Work Session - Staff Presentations
March 20, 2012	City Council Meeting – <i>Consider Real Estate Tax Rate to be Advertised*</i>
March 27, 2012	Work Session – Mark-up
April 10, 2012	City Council Meeting – Public Hearing on Budget & Work Session – Mark-up
April 24, 2012	City Council Meeting – Public Hearing on Budget & Work Session – Mark-up
May 2, 2012	City Council Meeting – Public Hearing on Real Estate Tax Rate & FY 2013 Budget Adoption (Note: WEDNESDAY MEETING)

\* Required 30 days advance notice prior to public hearing on real estate tax rate if assessments are to increase greater than 1%.

**ORGANIZATION OF THE BUDGET**

The City's financial operations are budgeted and accounted for in a number of funds. Fiduciary funds (i.e. City retirement funds) are not included. A fund is a separate accounting unit. All of the following funds are adopted (through appropriation resolutions) and included in the budget book as part of the City's annual budget review:

**General Fund** — used to account for all general operating expenditures and revenues; this is the City's largest fund. Revenues in the general fund are primarily from property taxes, sales tax, the business license tax and State aid.

**Capital Fund** — each year, the City adopts a five-year Capital Improvement Program (CIP) that serves as a blueprint for the long-term physical improvements the City wishes to make. The Capital Fund is funded through transfers from the General, Water and Wastewater funds, Federal and State aid, bond issues, and private donations. The current year CIP is included as part of the annual budget.

**Stormwater Fund** — this fund was established to carry out major stormwater projects. For FY 2013, one cent on the real estate tax rate is dedicated for project funding. This is a separate Capital Fund.

**Cable Grant Fund** — this fund receives its revenue from cable television fees. The revenue can only be used for cable television equipment. This is a separate Capital Fund.

**Old Town Service District Fund** — This fund was established to fund services and commercial projects in the Old Town District. The City levies an additional 6 cents per \$100 of assessed value on all properties in this district. Old Town Service District special assessment taxes are transferred into this fund in accordance with City Council Ordinance.

**Utility Funds** — Wastewater and Water services are accounted for in the Utility Funds. The Wastewater Fund and Water Fund are enterprise funds. Enterprise funds are those funds in which the cost of providing goods or services is financed primarily through user charges.

**Transit Fund** — the Transit Fund is used to account for operations of the City's CUE bus system. Although set up as an enterprise fund, a transfer of money from the General Fund into the Transit Fund covers a portion of the expenses of this fund.

**Commercial Real Estate Transportation Fund** — This fund levies an additional 5.5 cents per \$100 of assessed value on all commercial and industrial properties. The revenue collected is to be used exclusively for new transportation projects.

#### **BUDGETARY BASIS**

The budgets of the General and Capital funds (including Stormwater, Old Town Service District, Cable Grant, and Commercial Transportation Tax) utilize the modified accrual basis of accounting under which revenues are recorded when measurable and available to finance operations during the year. Expenditures, except for interest, are recorded when the liability is incurred. Interest is recorded when due. Budgets of the Utility funds and Transit fund utilize the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when the liability is incurred. The budget basis of accounting does not materially differ from that used for financial reporting (all funds), with the notable exceptions of depreciation and amortization, and debt service reporting in the enterprise funds, which are more appropriately illustrated in the City's Comprehensive Annual Financial Report (CAFR).

## City Council's Goals

*Adopted for the 2010 – 2012 Council term\**

1. Maximize the redevelopment potential of the City owned parcels to include: 11 Oaks School, the former BP Amoco lot at Main/East, George Mason Square, and the entire downtown area to include continued discussion of future uses of the Kitty Pozer Park/former Weight Watchers parking areas, satellite parking for downtown area businesses, community amenities, etc.
2. Develop cost scenarios for future water treatment alternatives to enable the City Council to determine the most efficient and effective long term water treatment options.
3. Strengthen the City's focus on environmental sustainability from an operations standpoint as well as functioning as a catalyst for community green initiatives.
4. Continued emphasis on the redevelopment of Fairfax Boulevard through the development and implementation of a Fairfax Boulevard Master Plan.
5. Continue to strengthen our residential base and sense of community through programs such as outreach meetings, Celebration of the 50<sup>th</sup> year of the City of Fairfax, the 75<sup>th</sup> Anniversary celebration of Fairfax High School, the Civil War Sesquicentennial celebration, and the 2011 opening of the City's new community center, etc.

*\*2012-2014 goals will be adopted in July 2012*

# **Water and Wastewater**

## **Fiscal and Operating Policies**

### **ESTABLISHMENT OF RATES**

1. Water and Wastewater rates and fees shall be established by City Council in a transparent manner consistent with all similar City activities. To that end, customers and residents (the rate payers) shall be given notice of all meetings of the City Council when such discussions and rate settings occur. In the establishment of annual Water and Wastewater rates, the City shall adequately disclose future growth plans and their expected impact on future rates.
2. The City shall annually prepare and include in the adopted budget a three-year future estimated rate schedule.
3. All ratepayers shall be charged uniform rates within their rate class. The determination of rates for the enterprise funds shall conform to standard municipal utility practices.
4. Rates for the enterprise funds, including the timing of rate adjustments, shall be designed to recover fixed and variable costs in such a manner as to ensure cost recovery and rate stability.
5. Rates of the enterprise funds shall be established to 1) ensure efficient and effective operation of the utilities, 2) fully recover actual operating and maintenance expenses incurred during the fiscal year, 3) repay annual debt payments for capital expenses of the enterprise fund 4) ensure surplus revenues are reserved to facilitate rate stability for ratepayers

### **APPLICATION OF THE MANAGEMENT FEE**

1. The Water and Wastewater utilities shall reimburse services received from other City departments, including but not limited to, personnel, administrative expenses, equipment and facilities. These services shall be prorated to reflect actual costs and designated as the “management fee”. The Water and Wastewater enterprise funds shall pay the City for, or reimburse the City for materials and services purchased during the fiscal year when consumed.
2. The procedures used to allocate each fund’s share of the management fee shall be reviewed by the City’s auditor not less frequently than every five years. The results of such a review shall be included as part of the documentation for subsequent rate proceedings. Unless otherwise justified by the auditor’s review, the total amount included in the Water and Wastewater enterprise funds for payment to the City, or other entities, for management fee expenses may each be increased at a rate no greater than the growth rate of the City’s total budget.



**RECOVERY OF CAPITAL INVESTMENT**

1. Utility physical plant investments in excess of normal and customary repair and replacement will be capitalized and amortized for rate setting over their useful lives, either through depreciation/amortization or sinking fund amortization of borrowings. Normal and customary repair and replacement will be expensed when incurred during the fiscal year. Depreciation and amortization shall conform to standard municipal utility practices.

**UNDESIGNATED FUNDS**

1. Surplus revenues, also known as Undesignated Funds, will be used in lieu of customer revenues, if possible, when those surplus funds reach a level equal to 100% of the prior year's fund expenses, unless such funds are to be held for pay-as-you-go capital expenses.
2. Surplus revenues shall be invested through the City and the interest earned shall be credited to the respective Water and Wastewater funds. Surplus revenues shall not be transferred from their respective Water and Wastewater accounts to be used for non-utility purposes.

## Council Adopted Financial Policies

To establish and document a policy framework for fiscal decision-making and to strengthen the financial management of the City, in April 2000, the City Council initially enacted a comprehensive set of Financial Policies, as detailed below. The goal of these policies is to ensure that financial resources are well managed and available to meet the present and future needs of the citizens of the City of Fairfax. Revisions to the financial policies were incorporated per recommendations by the Budget Committee and approved by the City Council in November of 2008.

### **Budgeting Policies:**

1. The City's annual operating budget, capital budget and Capital Improvement Program (CIP) shall be coordinated with, and shall be in concert with, the City's Comprehensive Plan.
2. The City shall adhere to the following guidelines in preparing, implementing and executing the annual budget:
  - a. Mayor and City Council shall develop general budget guidelines and provide them to the City Manager by November 15.
  - b. The Capital Improvement Program shall be considered by the City Council prior to its consideration of the annual budget.
  - c. Where appropriate, revenues related to expenditures shall be reflected in the budget documents.
  - d. The Mayor and City Council shall meet with selected boards and commissions in work sessions as part of the budget deliberations to review budget items concerning areas of interest to the boards and commissions.
  - e. The Mayor and City Council shall conduct a quarterly review of the implementation of the budget.
3. Budgeted current revenues must be greater than budgeted current expenditures.
  - a. Significant one-time revenues shall be used only for one-time expenditures.
  - b. Revenues must be increased or expenditures decreased, in the same fiscal year, if deficits appear.

4. The target for the General Fund transfer to the Capital Fund shall be at least 5 percent of General Fund expenditures to help ensure adequate reinvestment in capital plant and equipment. This transfer percentage incorporates the City's use of annual debt service payments toward capital projects.
5. The City shall set utility rates for the Water and Wastewater funds that will ensure industry-standard operation of the enterprise functions.

**Reserve Policies:**

1. The target for the General Fund balance shall be, at minimum, approximately 10 percent of General Fund expenditures.

**Debt Policies:**

1. Debt Service Targets
  - a. Annual debt service expenditures shall be less than 9 percent of annual expenditures.
  - b. Outstanding Debt shall be less than 3 percent of assessed valuation.
2. The term of any bond issue shall not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

**Revenue/Cash Management Policies:**

1. The City shall develop an aggressive economic development effort in order to lessen the impact of any future real estate rate increases.
2. The City shall maintain a diversified revenue base in order to shelter City finances from short-term fluctuations in any single revenue stream.
3. Annual City revenues shall be projected by an objective and thorough analytical process.
4. The City shall deposit all funds within 24 hours of receipt.
5. Investment of City funds shall emphasize the preservation of principal with safety, with liquidity and yield being the primary factors considered.

**Accounting/Auditing and Financial Reporting Policies:**

1. The City shall take necessary action to ensure receipt of the Government Finance Officers Association annual accreditation for the budget and for the comprehensive annual financial report (audit).
2. An independent audit shall be performed annually and a management letter shall be received by City Council. City administration shall prepare a response to the management letter on a timely basis to resolve any issues contained in the letter.

## **Council Adopted Budget Guidelines**

Revisions to the Budget Guidelines were approved by the City Council in November of 2011.

- Continually review City government programs and operations to achieve the most efficient and effective delivery of community services possible. Current programs should be evaluated and new programs should not be added.
- Projected revenues must equal or exceed adopted expenditures.
- Maintain a General Fund balance equal to approximately 10 percent of the general fund expenditures in conformance with the City Council financial policy.
- Maintain the General Fund CIP transfer at the City Council financial policy level of approximately 5 percent of adopted expenditures. This transfer percentage incorporates the City's use of annual debt service payments toward capital projects.
- No additions to personnel unless it would result in a net reduction in anticipated City expenditures, or a net gain due to an increase in City revenues.
- As vacancies occur, all positions to be evaluated against current needs and priorities.
- Consider a fair and affordable market adjustment and performance based increase for employees to retain parity with other local governments provided the economic environment allows.

# Community Profile

## City Government

Date of Incorporation	1799
Date of City Charter	1961
Form of Government	Council—Manager
City Employees	425.17

## Physiographic

Land Area - Square Miles	6.28
Acres of Public Parks & Open Space	188
Paved – Lane Miles	169
Sidewalks	87

## Utilities

Telephone	Verizon
Electric	Dominion Virginia Power
Gas	Washington Gas
Water	City of Fairfax
Wastewater	City of Fairfax
Cable	COX Cable / Verizon

## Economic Indicators

### **Largest Private Employers (June 2011)**

Fairfax Nursing Center
Inova Fairfax Hospital
Zeta Associates
Fairfax Volkswagen, Honda
Ted Britt Ford Sales
Lockheed Martin, Integrated Microcomputer Systems
The Home Depot

### **Largest Public Employers (June 2011)**

City of Fairfax
Dominion Virginia Power
U.S. General Services Administration
U.S. Department of Homeland Security
United States Postal Service

## Taxes

### **Real Estate Tax Rate**

FY 2013: \$1.01 per \$100 assessed value
FY 2012: \$0.942 per \$100 assessed value

### **Personal Property Tax Rate**

FY 2013: \$4.13 per \$100 assessed value
No change from FY 2012

## City Finances – Bond Ratings

Moody's Investors Service, Inc	Aaa
Standard & Poor's	AAA

## **Population**

2010 U.S. Census	22,565
2000 U.S. Census	21,498
1990 U.S. Census	19,622

## **Households**

2010 U.S. Census	8,347
2000 U.S. Census	8,035
1990 U.S. Census	7,362

## **Average Household Size**

2010 U.S. Census	2.64 persons
2000 U.S. Census	2.61 persons

## **Age (2010 Census)**

(1-19)	22.4%
(20-34)	22.5%
(35-64)	41.5%
(65 +)	13.7%

## **Race and Ethnicity (2010 Census)**

White	61.4%
Hispanic	15.8%
Asian	15.1%
Black	4.6%
Other/Mixed	3.2%

*Note: White, Asian and Black categories include non-Hispanics only.*

Source: U.S. Census Bureau

## **Unemployment**

	Dec. 2010	Dec. 2011
City of Fairfax	5.2%	6.2%
Virginia	6.4%	6.1%
United States	9.1%	8.5%

## **Hotel Industry**

	Dec. 2010	Dec. 2011
Number of Hotel Rooms	561	716
Occupancy Rate	70%	72%
Average Daily Rate	\$92	\$95

## **Vacancy Rates**

	FY 2010	FY 2011
Office Space	12.0 %	13.0 %
Retail Space	4.5 %	5.5 %
Industrial	1.0 %	0.5 %

**City of Fairfax Employment by Industry**

The largest major industry sector was Professional, Scientific & Technical Service with 22.1% of the employment followed by Retail Trade with 16.6%, Health Care and Social Assistance with 12.9% and Accommodation and Food Services with 9.6%. The following is a listing of major industries and the number employed in those sectors for 2011 in the City of Fairfax.

<b>Industry Group</b>	<b>Employees</b>
Professional, Scientific & Technical Services	4,295
Retail Trade	3,240
Health Care and Social Assistance	2,513
Accommodation and Food Services	1,863
Public Administration	1,747
Administrative and Waste Services	1,195
Other Services (Except Public Administration)	830
Finance and Insurance	802
Construction	653
Information	478
Education Services	446
Arts, Entertainment and Recreation	360
Transportation and Warehousing	236
Management of Companies and Enterprises	205
Real Estate, Rental and Leasing	193
Wholesale Trade	128
Manufacturing	99

*Source: Virginia Employment Commission,  
Quarterly Census of Employment and Wages, Second Quarter 2011*

## **Economic Assumptions and Budgetary Influences**

The underlying economic assumptions in this budget are:

- Increase in residential assessments of 1.6 percent; commercial assessments also increasing 3.1 percent (excludes new construction)
- A stabilizing regional economy as reflected in higher Sales Tax and Business Licenses (BPOL)
- State funding projected to increase slightly per education sources (e.g. higher enrollment)
- Non-education Fairfax County contracts to decrease 5.7 percent
- School tuition contract with Fairfax County Public Schools to increase 15.7 percent
- No net change in personnel
- No boundary changes anticipated

Several organization-wide factors have influenced the budgetary decisions in this budget, including:

- The desire to maintain a comparatively low overall tax burden on City taxpayers during persistently difficult economic conditions while meeting the budgetary demands of rising costs
- Continue the high level of services and amenities offered to citizens, including parks, roads, trash and leaf collection services, City Hall services, social welfare programs, etc.
- Address infrastructure needs and concerns that have arisen as a result of recent budgetary deferrals due to economic pressures (i.e. roads, storm drainage infrastructure, and facility maintenance)
- Consideration of the short and long-term impact of changing demographics in the City, especially the continuing trend of more school-age children living in the City, which is increasing the cost of schools as well as the demand for recreation and social programs

## Economic Condition and Outlook

A diversified economy is generally more resilient and more stable than one that is heavily concentrated in one or two areas. The City of Fairfax is in a particularly favorable position because its own local economy is relatively diverse (as indicated in the Virginia Employment Commission Quarterly Census of Employment and Wages report attached) and it benefits from its location as part of the Greater Washington region and from the current priorities in federal spending.

In previous downturns, the Greater Washington region and more specifically the City of Fairfax, have been largely immune to the effects of a struggling national economy. However, the most recent recession has proven more severe and has resulted in many government contracting firms folding under mounting economic pressures. Concurrently, small businesses, which are the lifeblood of the City's economy, continue to struggle amidst a much slower than anticipated recovery.

The U.S economy has finally emerged from one of the worst and the longest recessions of the post-World War II period. This recession was brought on by over-speculation in the real estate and financial markets; it spread to other sectors of the economy as consumers, fearing for their jobs in unsure times, simply stopped buying. Due to the influence of federal spending, the Greater Washington region's economy remains considerably stronger compared to the rest of the nation; however, during the recession the region's increasingly diverse economy has contributed to an increased strain on many local industries.

Leading economic indicators show the recession appears to have ended in the first quarter of 2009. However, the effects of the recession continue to reverberate as selective segments of the economy, like construction, manufacturing, information and finance, are slow to regain footing. Accompanied by slow job creation across-the-board, these factors have resulted in consistently high unemployment figures, further increasing problems for those affected.



**Federal Indicators**

Federal procurement spending in the Greater Washington region continues to increase. One of the main drivers behind Northern Virginia's economic strength has been its regional dominance of federal contracting dating back to the early 1980's. The bulk of this federal spending comes from two primary sectors: (1) outsourcing for technology and professional services and (2) managerial services to support global security systems. Businesses that serve these needs continue to have a high profile in the City.

By regional economic analysis and reports, federal spending in the Washington region accounts for about one-third of the gross regional product (the value of goods and services produced locally). While the net number of civil service jobs remains steady, when contract and grant related jobs are included, the number of jobs increases significantly. According to the Metropolitan Washington Council of Governments, 77 percent of City residents work in businesses located outside the City. Therefore, the actions of the federal government have both direct and indirect impacts on the local economy. The effects of federal spending are seen in everything from direct consumer spending to business investment, job growth and employment.

**State Indicators**

The City also is significantly impacted by State actions. Northern Virginia has long contributed to the State's coffers from its economic prosperity. Still, the region's political influence has never accurately reflected its economic strength. Unemployment has increased from 5% to nearly 6% but Northern Virginia still has the lowest jobless rate of any large U.S. metro area. The current shortfall in State revenues, accompanied by the lack of additional resources for other geographic regions in the Commonwealth, indicate little immediate support from the State should be expected.

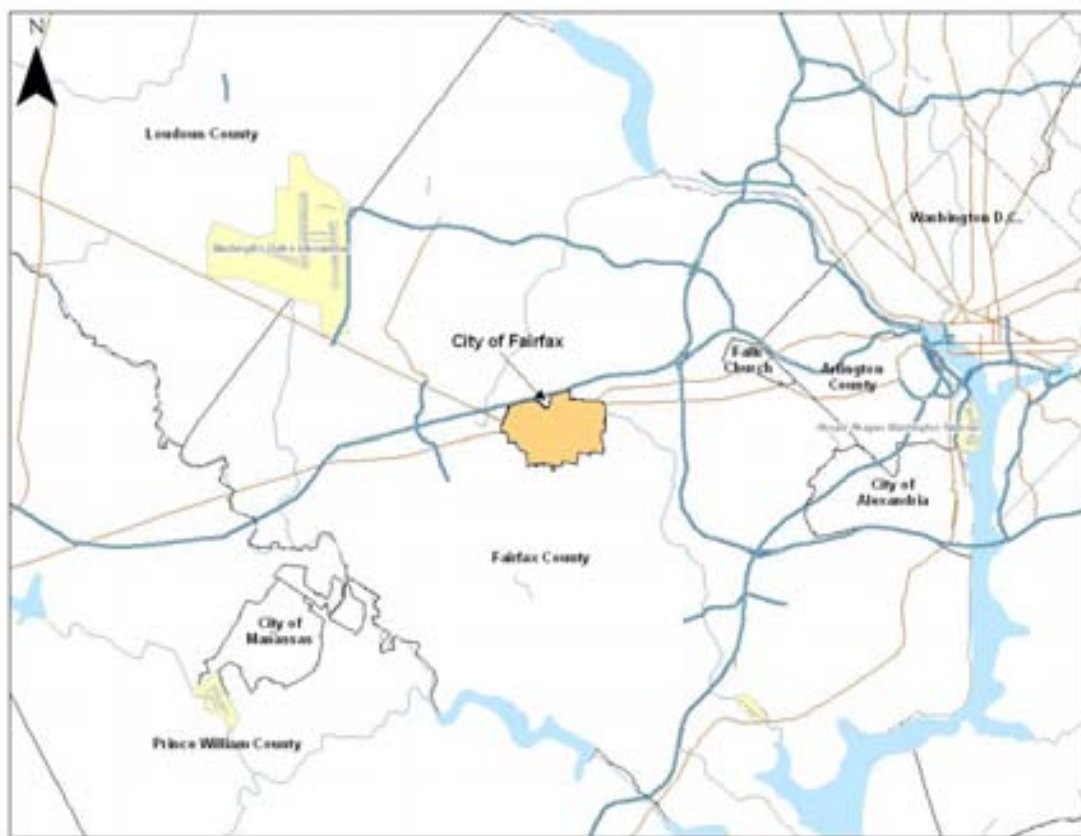
Governor McDonnell continues to cite job growth and job creation as critical components to the economic prosperity of Virginia. During the 2011 General Assembly session, continued improvements were made in the funding of existing programs and improving incentives to enhance Virginia's competitiveness. A pro-business climate fostered at all levels of government is essential to broadening the tax base and enhancing the Commonwealth's economic stability.

Transportation in the Commonwealth remains as the area's top priority. Without the ability for products to reach national and global markets, Northern Virginia remains at risk of losing its competitive advantage. Increased congestion, the related environmental impacts, and a high cost of living are making many Northern Virginia communities less attainable for families and are stifling workforce

productivity. Virginia needs to provide additional funding for transportation to support economic growth in Northern Virginia. While local governments also bear responsibility for transportation improvements, additional funding is needed to facilitate many of these regional upgrades.

### **Local Economy**

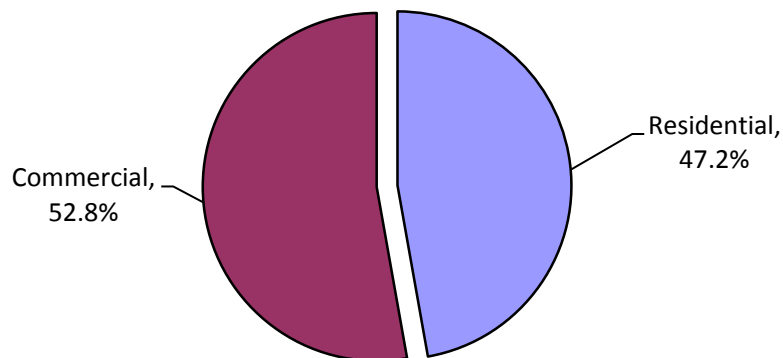
An independent jurisdiction of 6.28 square miles, 15 miles west of Washington, D.C., the City of Fairfax lies in the heart of the Northern Virginia area. Bounded by Interstate 66 on the north and less than five miles west of the Capital Beltway, the City is at the crossroads of Northern Virginia's major north/south and east/west highways. Fairfax's neighbors include the Vienna/Fairfax GMU station of the Metro regional rapid-rail system, and, at the southern boundary of the City, George Mason University. The City is within 30 minutes of both Dulles International Airport and Reagan Washington National Airport.



The City provides its citizens with the high level of services that Northern Virginia residents expect. With a population of approximately 22,565, the City offers good government, low taxes and a strong feeling of community pride. The residential tax burden is among the lowest in Northern Virginia with an adopted real property tax rate of \$1.01 per \$100 of assessed value and a personal property tax rate of \$4.13. For businesses, the same advantage is offered as the business license rates for the City compare favorably with those of other Northern Virginia jurisdictions.

The City's economy consists of two primary markets: the residentially based market and the non-local market or export base (spending dollars in the City which are earned elsewhere). The residentially based market is driven by the spending of City residents and therefore is a function of the local businesses to capture this local spending. The non-local market includes the hospitality sector, federal contractors and other professional services, and retail activities catering to outside markets. Also of note: George Mason University's contiguous location affords the City economic opportunities where non-local events may spill over to the benefit of the City's economy as well.

**FY 2013 Projected Revenues  
Generated by Commercial and Residential Sectors**



The City's economy is well prepared to serve City residents as well as residents of the surrounding trade area. There are over 4 million square feet of office space in the City, with a vacancy rate of 12.5 percent, and 3.3 million square feet of retail/service space, with a vacancy rate of 5.0 percent. Because of its constrained geographic size and residential character, the City's commercial market remains a niche market reflecting buildings with smaller footprints and heights and lower rental costs. These differences are promoted as a competitive advantage when recruiting for businesses to fill commercial space.

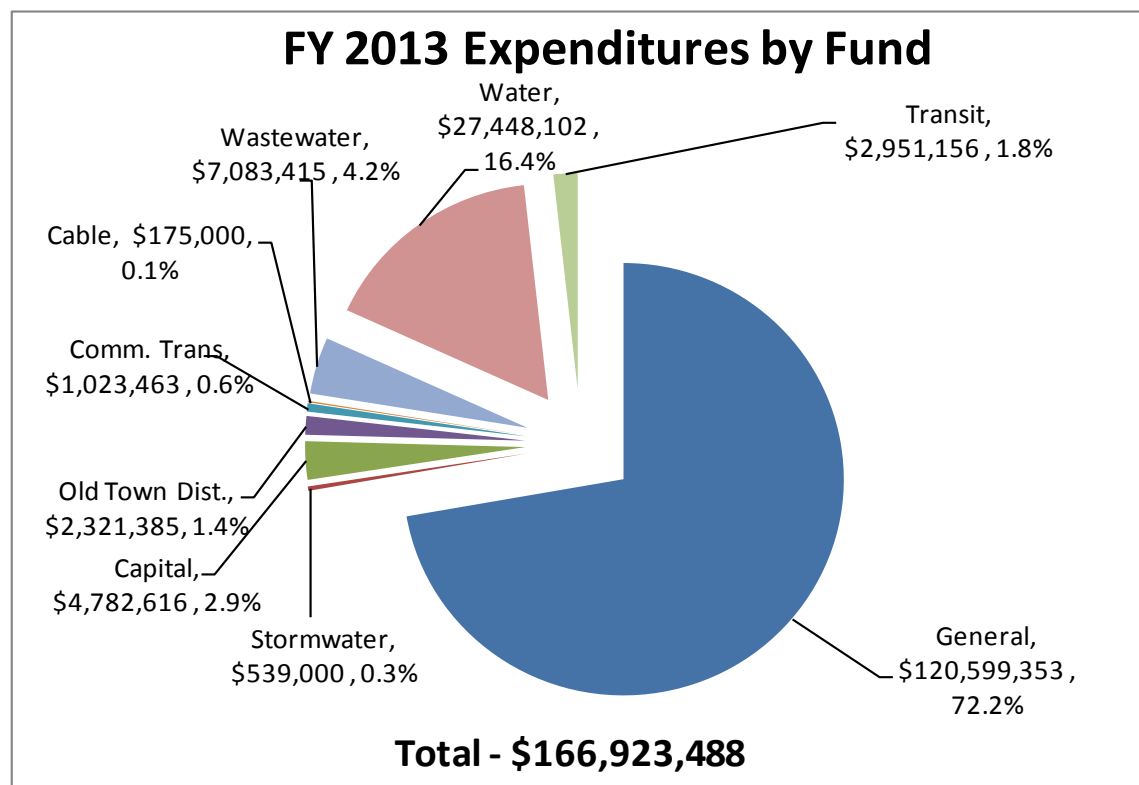
This buoyant economy has allowed the City to reposition itself to support redevelopment in Old Town Fairfax and in the Route 50/29 Corridor. The Route 50/29 Corridor is the City's economic engine, providing nearly 40 percent of all tax revenues generated from the community. Now known as Fairfax Boulevard, the City, in partnership with the Economic Development Authority and the Planning Commission, is aggressively pursuing multiple redevelopment opportunities. In concert with City staff and the City Council, a vision has been created that identifies three main commercial centers prime for redevelopment. These locations are Fairfax Circle, Kamp Washington and Northfax Gateway.

Construction of the Old Town Plaza redevelopment project in downtown Fairfax is complete. Many new businesses have moved in with others completing their build-outs. This new development provides for nearly 150,000 square feet of retail/restaurant and office space. Considering the current condition of the commercial real estate market, the project continues to generate interest with over 85% of the available space sold or leased. Additionally, the project includes a 558 space parking structure, as well as the new 45,000 square foot City of Fairfax Regional Library, which opened in January 2008. A 26-unit, high-end townhome community is now under construction for the final phase of the project. This redevelopment has proved to be a catalyst for the potential revitalization of several other properties in Old Town Fairfax.

In conjunction with George Mason University and the Small Business Development Center, the City operates a business incubator known as the Fairfax Innovation Center (FIC). The center is home to several GMU programs, 45 virtual tenants and 40 private start-up businesses occupying nearly 30,000 square feet of commercial office space in the City. Numerous businesses have graduated from the incubator since its inception and now occupy commercial space in the City. Due to the success and demand of the FIC, the center will undergo a significant upgrade to the existing facilities which will allow the businesses to remain competitive in the rapidly changing technological environment of today's marketplace.

## Overview – All Funds

Expenditures for all funds total \$166,923,488. Less fund transfers to the Capital Budget and Transit Fund (\$4,950,127), net expenditures total **\$161,973,361**. This is an increase of 10.7 percent over the prior year, and is due largely to increased general fund and capital expenditures. Further details follow in the accompanying sections of the budget book.



*Note: Percents may not total due to rounding; sums may differ immaterially due to rounding*

## Cash Management / Fund Balance

Financial policies recommended by the City’s financial advisors, the City’s auditors, and adopted by the City Council, require a fund balance equal to a minimum of approximately 10 percent of General Fund expenditures. More than being key to maintaining the City’s bond rating, an adequate fund balance allows the City to cope with revenue shortfalls, to pay for unbudgeted expenditures or unanticipated needs, to pay for other one-time large expenditures, and provide for adequate cash flows to absorb fluctuating expenditures and revenues during the fiscal year. For FY 2013, the City Council has approved a budget that draws the fund balance below 10% temporarily as the result of an adverse judgment against the City regarding a large tax bill adjustment. The fund will be reimbursed by \$500,000 in each FY 2014 and FY 2015 to restore the fund balance to 10% of General Fund expenditures. The following chart provides a history of the City’s General Fund Balance:

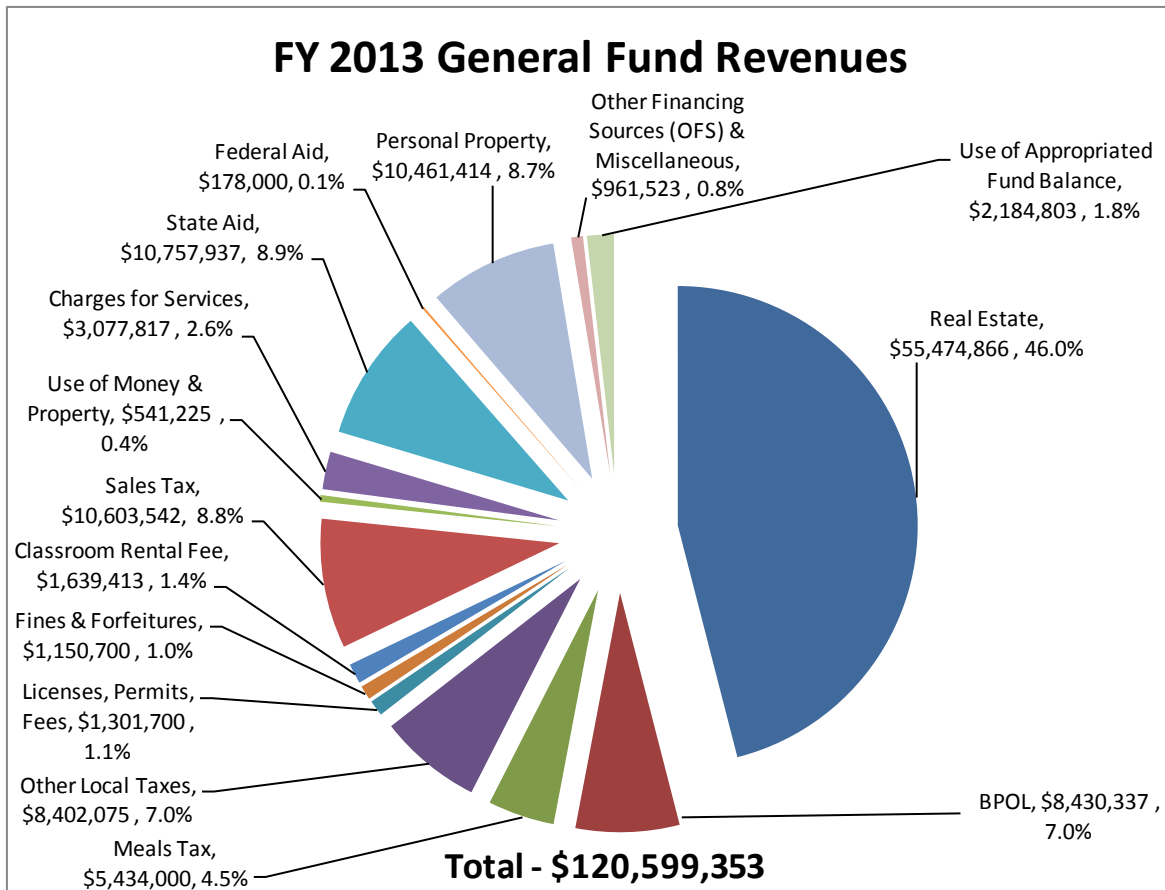
General Fund - Fund Balance		
Fiscal Year	Amount	% of Expenditures
2013*	\$11,059,936	9.2%
2012*	13,244,739	11.5%
2011	15,171,679	13.8%
2010	15,569,907	14.1%
2009	14,420,568	13.1%
2008	15,834,008	14.8%
2007	14,612,497	14.6%
2006	14,278,483	14.6%
2005	12,534,246	11.3%
2004	10,975,387	13.4%
2003	10,456,564	13.9%
2002	9,954,003	14.1%

\* Estimate

## General Fund Revenues

### Overview

General fund revenues equate to \$120,599,353 for FY 2013, which represents an increase of 5.5% (\$6,317,916) over FY 2012. The following chart provides a summary overview of revenues by category for FY 2013.



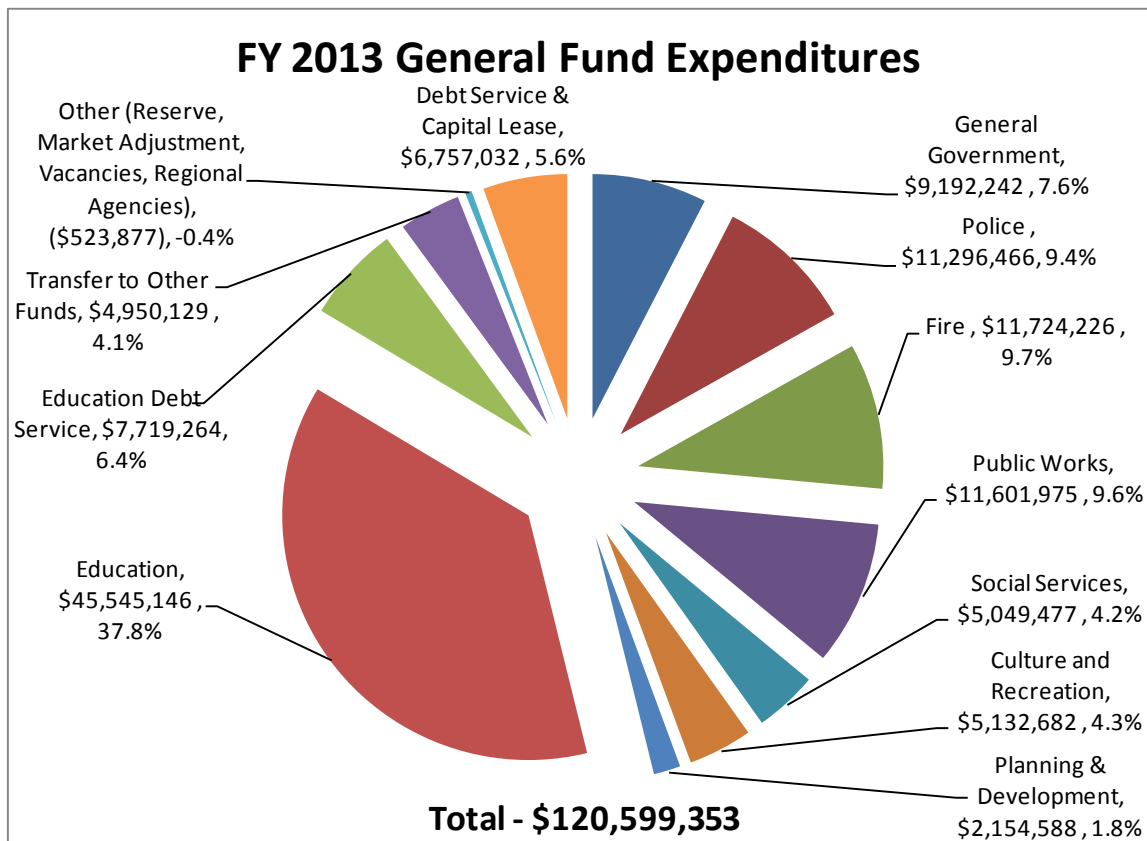
*Note: Percents may not total due to rounding; sums may differ immaterially due to rounding*

The Use of Appropriated Fund Balance in the amount of \$2,184,803 is from the FY 2012 estimated surplus, which is generated largely by the real estate tax increase. The estimated ending Fund Balance in FY 2013 is equal to 9.2 percent (\$11.1m) of General Fund expenditures.

## General Fund Expenditures

### Overview- General Fund

The City's General Fund expenditures are budgeted at \$120,599,353 for FY 2013. The largest spending category remains Education, followed by the Fire Department, Police Department, and Public Works. The "Transfer to Other Funds" category notes the General Fund transfer to the Capital Budget, Transit Fund, Old Town Fund, Stormwater Fund, and Commercial Real Estate Transportation Tax Fund.



*Note: Percents may not total due to rounding; sums may differ immaterially due to rounding*



## General Fund Revenue and Expenditure Changes - FY 2012 to FY 2013

The following chart highlights the major changes in expenses from last year's budget:

FY 2013 General Fund Expenditure Changes	
Increase / (Decrease) in Expenditures	\$ Change
School Tuition Contract	6,077,412
Salaries - General Gov't & Public Safety*	966,381
Salary Vacancy	772,761
Miscellaneous Changes	249,626
Fuel and Utilities Expenses	230,973
Water & Sewer Management Fee Allocation	178,616
Senior Tax and Rent Relief Program	100,000
General Fund Transfer to Capital Budget	(21,686)
Overtime Reductions - Fire	(177,883)
Debt Service	(192,342)
Personnel Cost Adjustments	(200,000)
General Fund Transfer - CUE Bus	(237,264)
Budget Cuts / Operating Cost Reductions	(341,450)
County Contracts - Non Education	(371,760)
Fringe Benefit Changes	(715,466)
<b>Total Increase / (Decrease) in Expenditures</b>	<b>6,317,918</b>

\*The salary increase of \$966,381 is comprised of the following: a 1.0% market adjustment (COLA) for all employees; 3.5% and 5.0% merit raises for General and Public Safety eligible employees, respectively; and a 5.0% State-mandated raise for all full-time employees to offset the shifting of the 5.0% Virginia Retirement System employee retirement plan contribution from the City to employees.

The following chart highlights the major changes in revenues from last year's budget:

FY 2013 General Fund Revenue Changes	
Increase/(Decrease) in Revenues	\$ Change
Real Estate Taxes	4,990,723
Meals Tax	588,925
Business Licenses (BPOL)	512,280
Sales Tax	473,901
State Aid	458,726
Personal Property Taxes	438,300
Ambulance Fees	379,743
Miscellaneous Changes	233,793
Tobacco Tax	(80,732)
Federal Aid	(168,400)
Appropriated Fund Balance	(1,509,341)
<b>Total Increase / (Decrease) in Revenues</b>	<b>6,317,918</b>

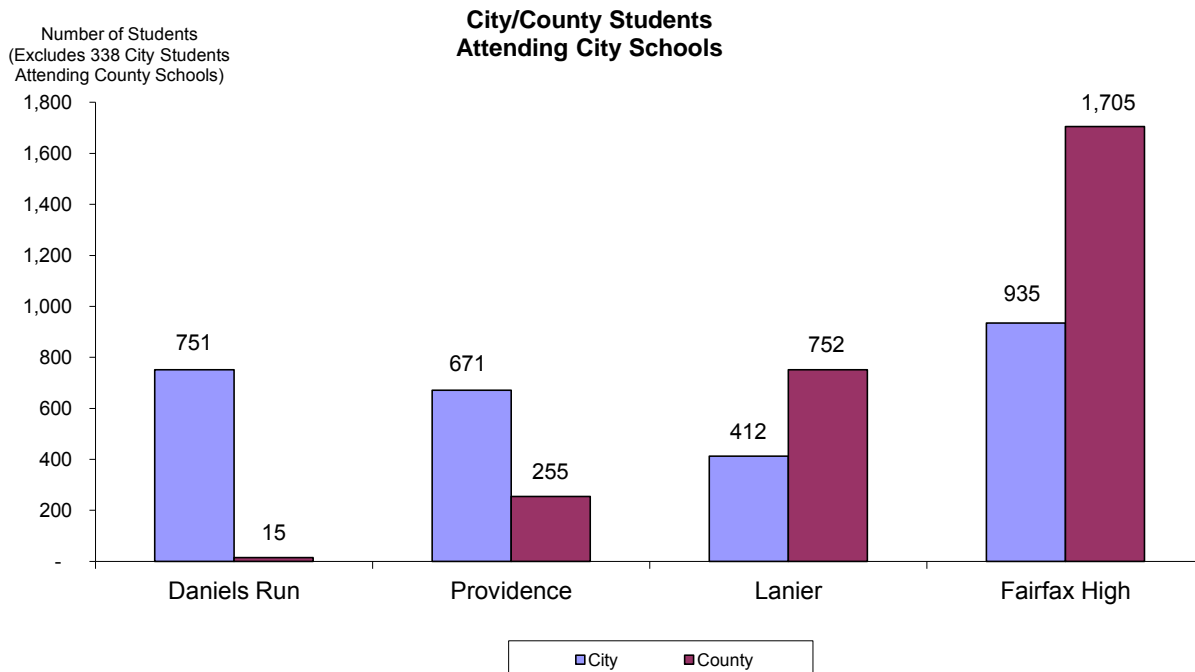
## Education

The total request for the schools is \$53.3 million, an increase of 12.9% (\$6.1 million). Administrative costs account for \$0.8 million, and combined debt/lease payments equate to \$7.7 million. The largest portion of this budget is the school tuition contract with Fairfax County Public Schools, budgeted at \$44.7 million, an increase of 15.7% (\$6.1 million) over FY 2012 budget. The following chart highlights the historical costs associated with the school tuition contract.

<b>Fiscal Year</b>	<b>Final Tuition Bill (excludes Classroom Rental Fee)</b>	<b>ADM</b>
2013*	\$44,721,922*	3,107*
2012*	40,044,510*	3,042*
2011	37,927,714	2,961
2010	37,380,696	2,905
2009	37,625,873	2,764
2008	37,806,032	2,778
2007	34,188,018	2,727
2006	32,785,342	2,698
2005	30,679,214	2,724
2004	27,291,210	2,717
2003	26,534,379	2,723
2002	25,377,420	2,702

\* These figures are reconciled to actual amounts after the close of the respective fiscal year and may be adjusted

City students continue to maintain an overwhelming majority of the total population at both Daniels Run and Providence Elementary Schools at 98% and 72%, respectively. On the contrary, Lanier Middle School and Fairfax High School statistics note that City students represent 35% of each those schools' attendance.



## FY 2013 Adopted Budget – City of Fairfax, Virginia

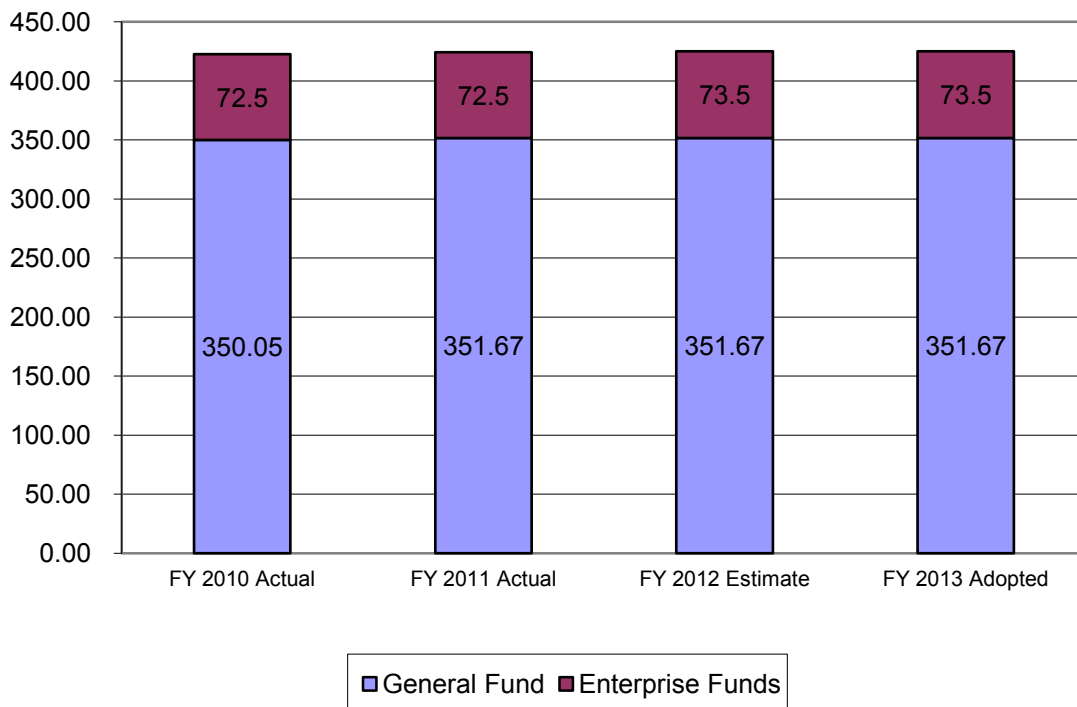
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### Employees, Salaries and Fringe Benefits

For the first time in four years, merit (step) increases for eligible employees (\$345,000) have been included in the adopted budget. The City Council also recommended and approved a 1.0% market adjustment (COLA) for all employees (\$350,000). A number of regional jurisdictions are including both merit and market adjustment based compensation adjustments in their FY 2013 budgets. The budget also includes a State-mandated raise of 5.0% to offset the shift of the VRS plan contribution from the City to the employees (\$170,000). Reductions in personnel costs are budgeted to be achieved through modification of certain pay practices.

There is no net change in the FY 2013 budget to the overall staffing levels. Half of the personnel expenses associated with the City Clerk (.5 FTE) have been reallocated to the City Manager Department to more accurately reflect the overall duties of the position. The following chart notes the total number of positions from FY 2010 to FY 2013.

#### Full Time Equivalent (FTE's)



## Contract Services

Expenses for county and regional service contracts make up 43.5 percent of the City's General Fund expenditures. The City contracts with Fairfax County for many services, the largest of which is the City's School Tuition Contract.

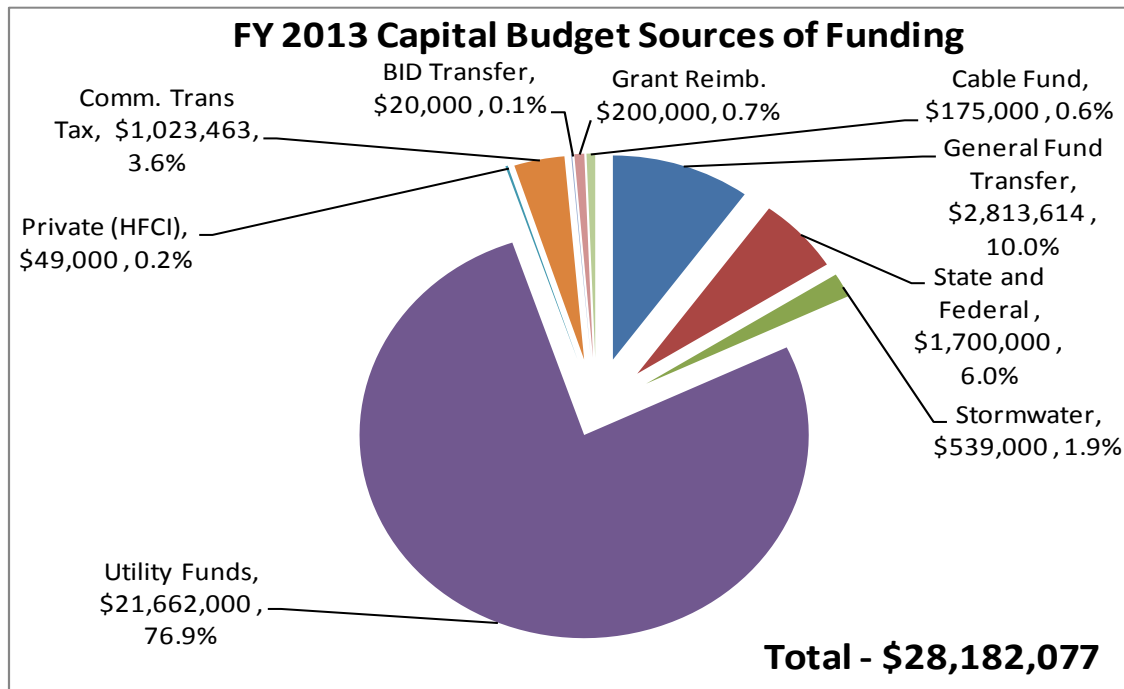
City-County and Regional Service Contracts		
	FY 2012 Budget	FY 2013 Adopted
<b>City-County Contracts:</b>		
School Tuition Contract	\$38,644,510	\$44,721,922
Library Services	823,000	722,611
Joint Court Service	310,432	274,285
Juvenile and Domestic Court	527,882	436,862
Commonwealth Attorney	63,500	72,352
Jail and Custody Service	1,263,675	1,229,383
Fire & Rescue – Suppression	260,214	260,214
Refuse Disposal	450,000	450,000
Extension - County Agent	46,000	43,564
Social Services	1,614,263	1,651,206
Health Department	<u>1,183,816</u>	<u>1,030,545</u>
<b>Subtotal City-County Contracts</b>	<b>45,187,292</b>	<b>50,892,944</b>
<b>Regional Agencies:</b>		
Community Services Board	1,309,900	1,336,100
Council of Governments	22,367	22,434
Health Systems Agency	2,350	2,350
Area Agency on Aging	45,852	45,852
Legal Services of NoVa	21,945	21,945
NoVa Community College	2,126	2,126
NoVa Regional Commission	11,994	11,994
NoVa Regional Park Authority	48,160	48,160
NoVa Transportation Comm.	5,822	7,684
Volunteer Center	<u>10,000</u>	<u>10,000</u>
<b>Subtotal Regional Agencies</b>	<b>1,480,516</b>	<b>1,508,645</b>
<b>Total Contract Services</b>	<b>\$46,667,808</b>	<b>\$52,401,589</b>

# Capital Fund

The Capital Improvement Program for FY 2013 totals **\$28,182,077**. General Government notes a 33% increase from FY 2012. Funds are budgeted for software upgrades (\$400,000), improvements to historic properties (\$99,000), vehicle and equipment leasing (\$530,114), vehicle replacement and IT upgrades for the Police Department (\$132,000), and building maintenance for City facilities (\$65,000). Transportation increases are the result of additional state grant monies and from funds generated from the commercial real estate tax.

Category	FY 2012 Budget	FY 2013 Adopted	Change	
			\$	%
Schools	\$ -	\$ 83,500	\$ 83,500	100%
General Government	1,079,800	1,438,114	358,314	33%
Recreation and Community Appearance	215,000	115,000	(100,000)	-47%
Environment	9,150,000	22,201,000	13,051,000	143%
Transportation	4,874,500	4,344,463	(530,037)	-11%
<b>Total</b>	<b>\$15,319,300</b>	<b>\$28,182,077</b>	<b>\$12,862,777</b>	<b>84%</b>

In addition to the General Fund, funding for the Capital Fund comes from Utility Funds, Federal and State Funds, the Cable Fund, privately donated funds, and Stormwater and Commercial Transportation Taxes. The following chart illustrates the sources of funding for the Capital Budget in FY 2013; additional information can be found in Section G of the budget book.



Note: Sums may differ immaterially due to rounding

## **Wastewater Fund**

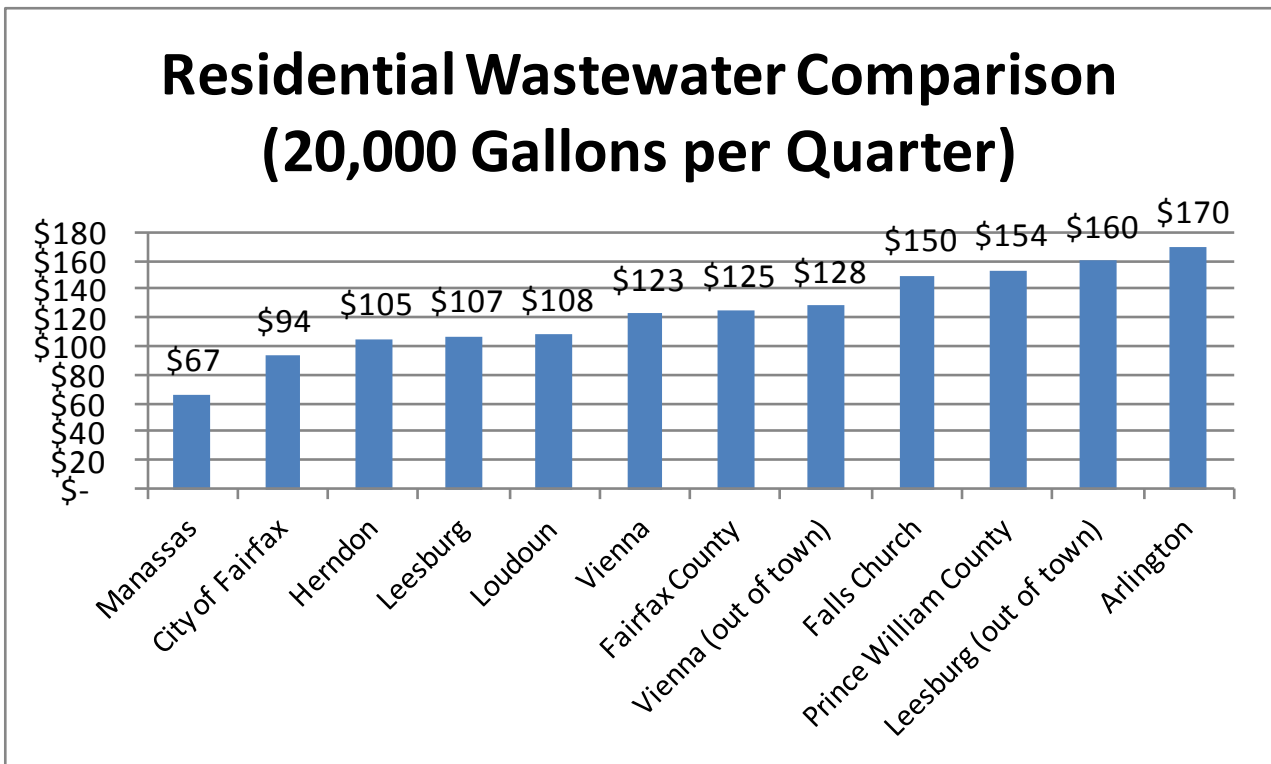
	<b>FY 2011 Actual</b>	<b>FY 2012 Budget</b>	<b>FY 2012 Estimate</b>	<b>FY 2013 Adopted</b>
Revenues	\$13,056,174	\$4,974,326	\$7,437,426	\$7,556,196
Expenditures	\$5,357,282	\$4,666,013	\$7,025,138	\$7,083,415
Rate Increase	12%	12%	12%	12%

For FY 2013, a rate increase of 12 percent was adopted for the Wastewater Fund in order to keep pace with future operating and capital costs as well as replenishing the Wastewater Fund Balance. In FY 2010, the City was officially notified of planned cost increases related to the City's cost sharing agreement with Fairfax County for the treatment of the City's wastewater at the County's Noman M. Cole Water Pollution Control Plant. This plant is subject to continuing stringent environmental standards to protect the Chesapeake Bay and therefore, numerous process upgrades to reduce nitrogen and phosphorus are mandated. Additionally, there are general capital upgrade costs, unrelated to treatment techniques that must be addressed at this facility. The City's portion of these upgrades is to be approximately \$25.1 million by 2019. The City has successfully financed the first phase of these costs and is working with the County to establish a payment schedule that is acceptable to both jurisdictions. Future rate increases to enable repayment of the debt for the Wastewater treatment plant upgrades and modifications will be significant. Establishment of a future rate increase schedule was prepared to match the financial forecast and ensure rate stabilization.

Apart from the financial requirements of the Wastewater treatment facility, in FY 2009 the City undertook an analysis of the Wastewater collection system. Numerous infrastructure recommendations were made by the City's consulting engineers and financial advisors which resulted in the preparation of a multiyear Capital Improvement Plan. FY 2013 will require \$530,000 for continued wastewater conveyance maintenance to include pipe relining, manhole rehabilitation and an asset management program.

The three-year forecast for Wastewater fee increases is 12 percent per year. This is substantial and is the result of needed infrastructure improvements; particularly the Noman M. Cole Water Pollution Control Plant. The fund balance is expected to continue to improve over the next three years. Currently the balance is substandard.

The City's wastewater utility rates are currently the second lowest in the region.



## Water Fund

	<b>FY 2011 Actual</b>	<b>FY 2012 Budget</b>	<b>FY 2012 Estimate</b>	<b>FY 2013 Adopted</b>
<b>Revenues</b>	\$18,700,537	\$17,395,151	\$16,969,938	\$27,536,478
<b>Expenditures</b>	\$8,442,209	\$17,540,994	\$16,768,541	\$27,448,102
<b>Rate Increase</b>	7.5%	7.5%	7.5%	7.5%

Water infrastructure rehabilitation and replacement is crucial to sustaining the City's water treatment and distribution system. The City plans to make significant investments to the water treatment and distribution system according to its Capital Improvement Plan developed in conjunction with consulting engineering evaluations. The distribution system contains a significant amount of aged cast iron piping and will require enhanced maintenance and diligence to ensure dependable service and safe quality of water. Consistent with capital planning discussions held annually with City Council since 2009, there will continue to be scheduled rate increases each year for the foreseeable future in order to finance the continuing escalating costs associated with water treatment and distribution capital upgrades. Revenues for capital improvements will come predominantly from existing customers since growth is limited to in-fill development and re-development in the City. The City is evaluating different treatment upgrade and improvement options to refurbish the treatment plant. In this endeavor, special focus will be given to lower chemical and energy costs in upcoming fiscal years.

FY 2013 will require \$18,750,000 for continued project improvements to include improvements to the Goose Creek Raw Water Pumping Station, Chemical Storage Facilities, High Service Pumping Station, cast iron water main replacements, water tank maintenance, continued implementation of automated meter reading, Supervisory Control & Data Acquisition and Geographic Information Systems.

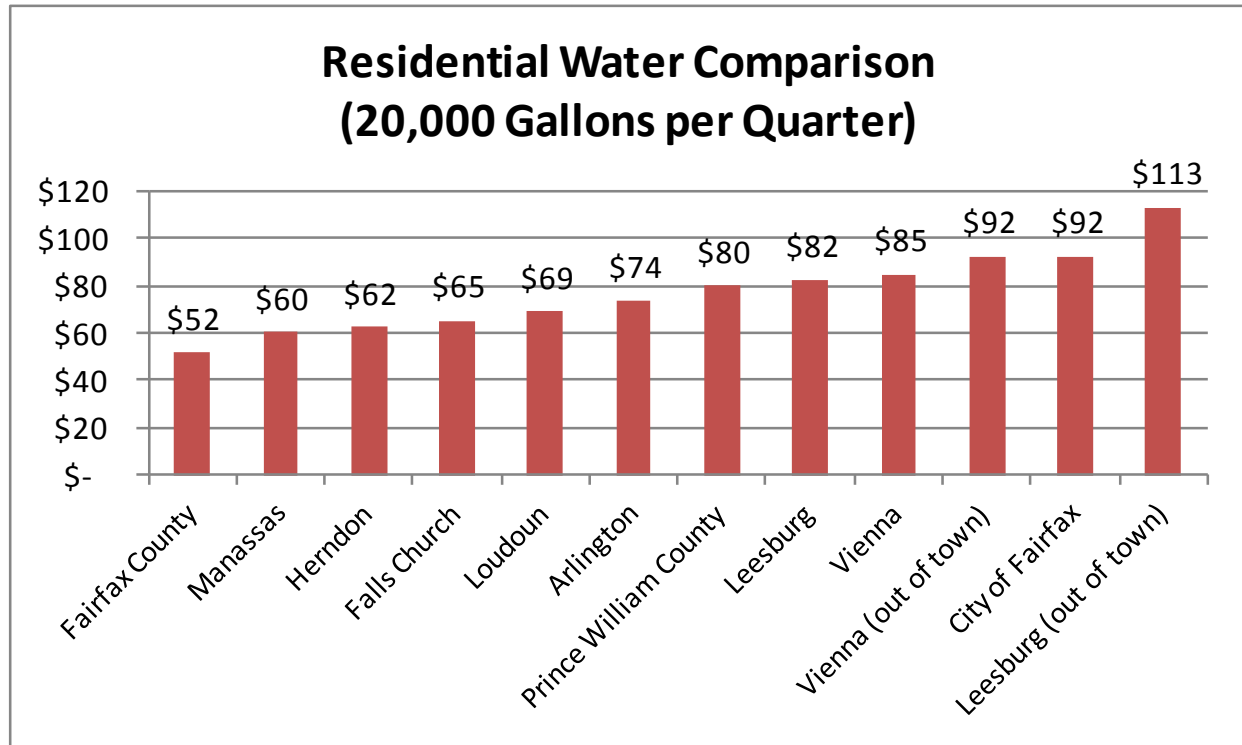
Loudoun Water has been a wholesale customer of the City since 1961. Loudoun Water has advised the City that it will build its own water treatment plant sometime during the next five to seven years and will no longer need services from the Goose Creek Water Treatment Plant once that facility is commissioned. The likely impact to the City of Fairfax will be a decrease in chemical and energy costs, as well as reduced revenues to the Water fund. As a result of the loss of Loudoun Water the increased water rate schedule was adopted for rate stabilization for the City's customers.

The three-year forecast for water fee increases is 7.5 percent per year. This is substantial and is the result of needed infrastructure improvements; particularly the Goose Creek Water Treatment Plant. The undesignated fund balance for this utility is expected to continue to build to 51% in the future. Currently, the balance is substandard and rate increases will improve this situation over the next three years.



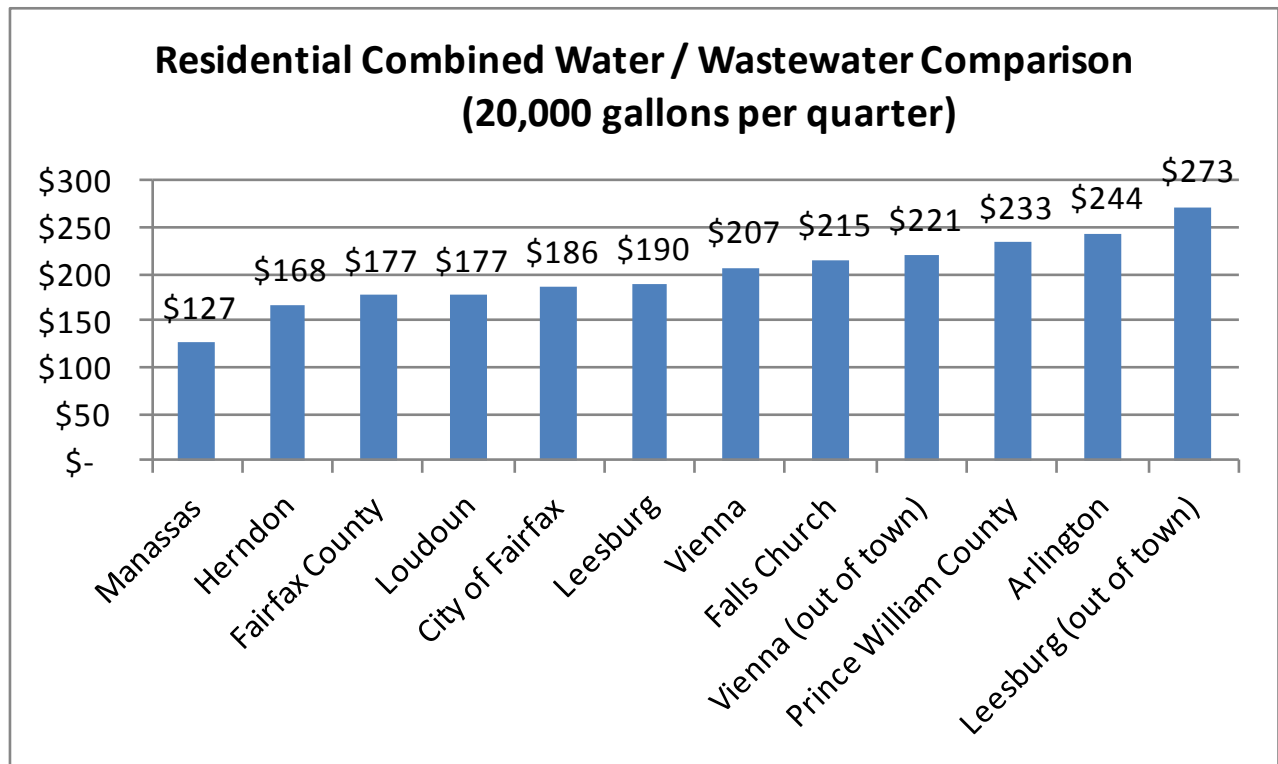
## FY 2013 Adopted Budget – City of Fairfax, Virginia

The City's adopted water rates currently remain competitive in the region, particularly among smaller systems.



## FY 2013 Adopted Budget – City of Fairfax, Virginia

The following chart highlights combined charges for both water and wastewater bills. All jurisdictions in the region have a basic charge for their respective water and wastewater rates with the two exceptions being the City of Fairfax and Arlington. This accounts for the variance when adding rates from the previous separate water and wastewater charts. The City adopted rates will result in combined water and wastewater rates that are currently the fifth lowest in the region.

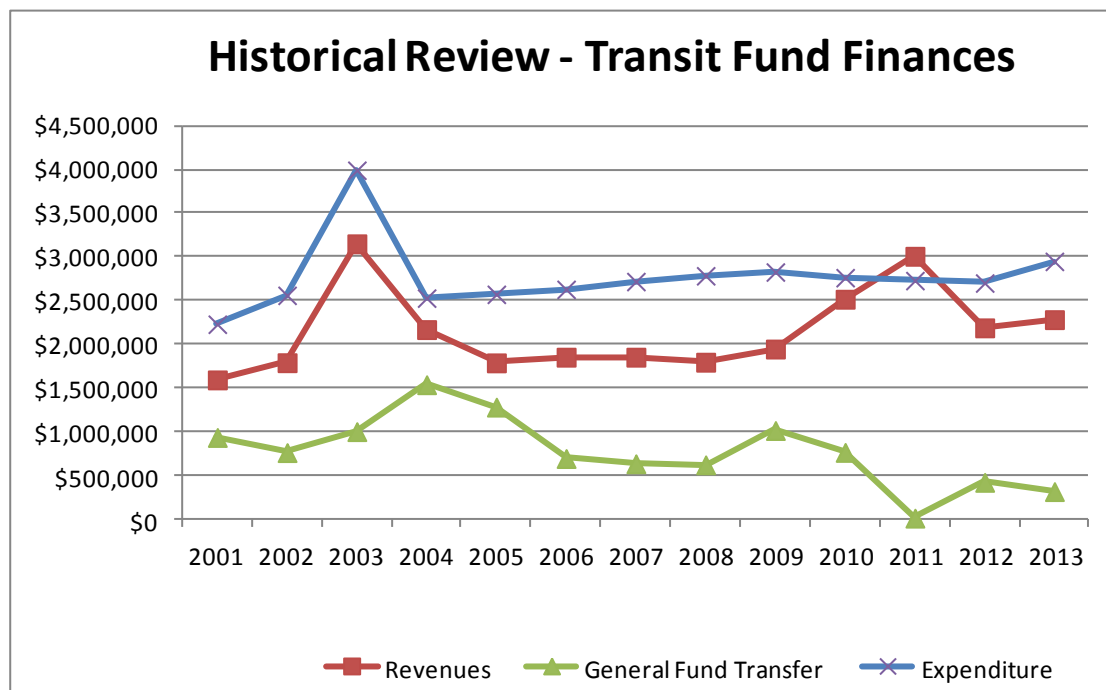


## Transit Fund

	FY 2011 Actual	FY 2012 Budget	FY 2012 Estimate	FY 2013 Adopted
<b>Revenues</b>	\$3,028,818	\$2,837,716	\$2,620,294	\$2,608,452
<b>Expenditures</b>	\$2,732,325	\$2,873,716	\$2,704,157	\$2,951,156
<b>General Fund Support</b>	\$18,972	\$559,422	\$428,000	\$322,158

The City/University/Energysaver (CUE) bus system provides an alternative transportation mode for City and area residents and George Mason University (GMU) students throughout the City and from GMU and Metro. The City has operated the CUE system since 1985 and provides 12 buses on a fixed route system traveling 441,430 vehicle miles during 30,215 hours of operation each year.

Effective July 1, 2012 the basic fare (cash) increases by \$0.10 from \$1.70 to \$1.80. A discounted fare of \$1.60 is charged to those riders who use a Smartrip card. The fare increase along with additional funds from the system's partnership with George Mason University has resulted in increased revenues. Beginning July 1, 2012, reductions in CUE service by one hour during weekday evening service will result in salary cost savings.



### **Acknowledgements**

The budget is the product of an intensive effort by staff in all City departments. In particular I want to express my appreciation to David Hodgkins, Assistant City Manager / Director of Finance, and John Spittle, Budget Manager, who have principal responsibility for the preparation of this document. Others who contributed significantly to the preparation and printing include Jennie Tripoli, Melanie Burrell, Lyn Guzman, and Joanna Ormesher. Additional thanks go to each of the Department Directors, the City School Superintendent and staff, the Constitutional Officers and every employee who participated in finalizing materials for City Council's deliberation.

## **Budget Information Request**

Copies of the FY 2013 Budget and FY 2013-2017 Capital Improvement Program (CIP) are available as follows:

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Phone: 703-385-7870

E-mail: [john.spittle@fairfaxva.gov](mailto:john.spittle@fairfaxva.gov)

City website: <http://www.fairfaxva.gov/budget/budget.asp>

<b>2010 – 2012 Elected Officials</b>	<b>2012 - 2014 Elected Officials</b>
<b>Mayor</b> Robert F. Lederer	<b>Mayor</b> R. Scott Silverthorne <a href="mailto:scott.silverthorne@fairfaxva.gov">scott.silverthorne@fairfaxva.gov</a>
<b>City Council</b>  Daniel F. Drummond  Jeffrey C. Greenfield  David L. Meyer  Eleanor D. Schmidt  R. Scott Silverthorne  Steven C. Stombres	<b>City Council</b>  Michael J. DeMarco <a href="mailto:michael.demarco@fairfaxva.gov">michael.demarco@fairfaxva.gov</a>  Daniel F. Drummond <a href="mailto:dan.drummond@fairfaxva.gov">dan.drummond@fairfaxva.gov</a>  Jeffrey C. Greenfield <a href="mailto:jeff.greenfield@fairfaxva.gov">jeff.greenfield@fairfaxva.gov</a>  David L. Meyer <a href="mailto:david.meyer@fairfaxva.gov">david.meyer@fairfaxva.gov</a>  Eleanor D. Schmidt <a href="mailto:eleanor.schmidt@fairfaxva.gov">eleanor.schmidt@fairfaxva.gov</a>  Steven C. Stombres <a href="mailto:steve.stombres@fairfaxva.gov">steve.stombres@fairfaxva.gov</a>

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